

1996 Report: Problem Areas

This report will summarize the findings of the Property Tax Administrator focusing on problem areas both geographically and by type of property in compliance with section 77-5012, R.R.S., 1996. This report will be offered to the Tax Equalization and Review Commission for their consideration in the development of the Statewide Plan of Equalization.

The Property Tax Division has made a concerted effort to gain an understanding of the assessment practices of Nebraska's 93 County Assessors. Our purpose is to assist the Commission in accurately measuring the efforts of the county assessor in setting uniform and proportionate values on real property for tax purposes, and to provide useful information to the county assessor to facilitate their efforts. Our purpose is defined by state law which requires the Division to adjust the assessed valuation of each school district for use in the Tax Equity and Educational Opportunities Support Act, and to publish ratio studies to measure the quality and uniformity of assessment practices. (Sections 79-1016 and 77-1327, R.R.S., 1996.)

In preparation of this first report focusing on problem areas, the Property Tax Administrator has focused on issues that are of concern almost universally throughout the state. Generally, it is believed that once there is an overall position on these matters that the county assessors will have more focus to their efforts, and future reports may deal with more specific issues. It is believed that strong and consistent direction through state oversight will benefit the valuation process.

MANAGEMENT OF THE ASSESSMENT PROCESS

In general, many county assessor's offices are severely understaffed and underfunded. There is great disparity in the availability of technological tools. Also, the proficiency in the use of these advances limits the progress attainable from their use. It has often been stated by observers of the assessment process that to gain real progress in the quality of the assessment of real property the resources must be made available at the source of the valuation process, the county assessor. To put resources into any later step in the process diminishes the return on the investment.

One area of concern in the initial process of setting value is the accurate and contemporary listing of the characteristics of real property that affect market value in the assessment jurisdiction. While an accurate listing of the property will not guarantee quality valuations, it is certainly necessary to make efficient use of market data. Without an accurate and current inventory, development of comparability of sales is seriously curtailed. Also, imposing and initiating uniform standard practices for this process is a good defense to a challenge of the valuation of any parcel of real property.

The evidence regarding the contemporaneous listing of property characteristics was gathered by the Division through the Interview with Assessors document. The process of gathering information

to accurately list real property for the assessment roll includes the process commonly referred to as "pick-up work." Pick-up work is the annual process of listing for assessment the real property added to the roll in the last year, and includes new construction and modifications to existing real property. It may be noted that in some counties the practice of annually adding this property to the assessment roll is nonexistent. Failure to annually update the assessment roll with pick-up work leads to substantial undervaluation within the assessment jurisdiction, not to mention violation of the requirement of uniform valuation and non-commutation of tax provisions of the Nebraska Constitution.

An associated problem with inaccurate listings is the need for a reappraisal of all or a part of the real property in the county. The Division has been very cautious about making statements regarding the need for reappraisals because our experience has shown that investing time and money in a reappraisal of a part or all of a county does not necessarily produce improved results. Additionally, the cost of such a project is prohibitive for many counties. Our belief is that many of the counties would benefit from continual partial reappraisals and sharing resources, such as sales information and appraiser services. These projects may require some additional fiscal resources, but they are continual, and easier to manage than a reappraisal. Also, a reappraisal seems to lead the public to believe that once it is completed that it does not have to be redone for several years. This philosophy has resulted in severe underfunding of the assessor's office the year after a reappraisal is complete and limits the ability of the assessor to maintain the quality of the valuation after such a huge investment of time and resources into the reappraisal project. Again, our experience indicates that continual management of the assessment roll is far superior to periodic reappraisals in both its reduced cost and its maintenance of quality assessments.

RESIDENTIAL REAL PROPERTY

This class of real property provides the most number of sales from which to determine market value. It is by far the most actively traded class of real property. Additionally, these sales, more likely than not, represent arms length transactions, with little or no outside influences. However, residential real property presents several challenges for 1997: representation of all subclasses of residential real property; the effect of small dollar sales on the overall statistics; and, low number of sales in sparsely populated counties.

There are many subclasses of residential real property that have not been focused upon in statewide equalization, including, but not limited to: vacant land; mobile homes; acreages; and recreational property. These subclasses of residential real property will be included in the analysis of residential real property for 1997. While the inclusion of these subclasses may not effect the level of value of residential real property it is likely that their inclusion will effect the quality statistics for the class of residential real property.

It is the opinion of the Division that these subclasses of residential real property can no longer be excluded from the analysis of residential real property. Ignoring these subclasses proliferates

unequal treatment of these properties, many times to the detriment of the mainstream residential real property. For 1997, it may be necessary to focus attention on bringing these subclasses within the required level of value for the class of residential real property, rather than simply including them in the class and reacting to the resultant statistics. The Division will be working with the county assessors on the analysis of the subclasses and will provide information regarding these subclasses in a manner to allow separate analysis.

In many counties in the state there are residential properties with very low values, for example \$3,000, for a lot with house. The sales price paid for these properties, if only marginally different from the assessed value in terms of the dollars paid, for example \$4,000, can dramatically effect the assessment sales ratio for the property, for example 75%, and therefore for the class as a whole, if there are a significant number of these sales in the analysis. The Division has developed an analysis to use in these situations to absolve reasonable value estimates. The purpose of this study is to reveal and reduce the statistical bias that occurs when estimates of value are reasonably close, in terms of dollars, to the selling price, but still produce extreme ratios.

The issue of few sales within an assessment jurisdiction has been an age old problem for county assessors in Nebraska. It is also a problem that is not limited to the class of residential real property. The Division is urging all county assessors concerned with defending the level of value of the class to utilize the statewide sales data base to extract appropriate sales transactions from other counties. Under the current fiscal constraints, it is the opinion of the Division that one cost effective way to gather additional evidence regarding the market value of real property is to investigate sales transactions that have occurred in similar geographic and economic areas and compare the market value to the assessment practices of the county "borrowing" the sale.

COMMERCIAL AND INDUSTRIAL REAL PROPERTY

While commercial real property and industrial real property may be analyzed separately, this report will discuss the problem areas of these two classes together, as their problems are identical.

This class of real property provides the fewest number of sales from which to develop market value. It is by far the least actively traded class of real property. Additionally, these sales, more likely than not, do not represent arms length transactions, and the selling prices are significantly effected by factors beyond the value paid for the real property. Commercial and industrial property presents several challenges for 1997: low number of sales statewide; inconsistent classification of the property sold; proper subclassification of the class within the county.

Commercial and industrial real property analysis has historically caused the most concern for the Division in developing the level of value for a county. Our historic answer has been to rely on the presumption that the county assessor has properly valued this class of real property, and to assume it is valued at 100% of market value. This is in light of the fact that the inconsistency of the statistics provides no better evidence. The current effort of the Division is to verify every

commercial and industrial real property transaction in the hope that the data will support our analysis. We are very concerned that even with this effort that we will fall short of usable statistical information.

Our opinion is that it may be prudent to investigate other concepts for the valuation of these two classes of real property through discussions with the property owners, the county assessors, the Tax Equalization and Review Commission, the Governor, and the Nebraska Legislature.

AGRICULTURAL LAND

This class of real property provides a sufficient number of sales from which to develop market value. However, in many areas of the state and within counties there may be insufficient transactions to justify the assessed valuation of the land. The assessment of this class of real property is more restrictively governed by statute. Additionally, the constitutional and statutory permission to value this real property abstracting out non-agricultural market influences (Greenbelt) adds to the complexity of the valuation and to the policy debates surrounding its value. The challenges in the valuation of agricultural land for 1997 include: low number of sales in some areas of the state or within counties; uniform classification of the land; and, recognition of non-agricultural market influences on the selling prices.

It is the Division's opinion that when the policy of valuing agricultural land changed to market value reliance upon the detailed classification and value structure from the prior policy became obsolete. As stated earlier, classification is an important process in the assessment function, but it does not guarantee quality valuation. However, because agricultural land crosses every county line in this state, across-county line comparisons are valuable tools in the statewide equalization of this class of real property. The classification method imposed by the Division is contained in the Nebraska Agricultural Land Valuation Manual, and is based on the policy that consistent classification will allow for accurate across-county line comparisons. This uniform classification will also allow for the easy sharing of sales information from one county to another in similar areas of the state. It is our opinion that uniform classification should be supported as a useful tool for intercounty equalization.

In the past, the value of agricultural land was driven by a precise statutory formula that established and required the use of average values within each county. This policy is completely contradictory to the concept of the recognition of market value because it prevents the recognition of the changes in market value within a county. It also restricts the valuation to a pre-designed valuation structure by subclassification which may not be recognized within the market place. Our efforts are to develop information that recognizes the market changes and allow the reporting of various methods of recognizing market value. The Division continues to support and encourage uniform classification, but to also support and encourage recognition of the market of agricultural land.

The last two issues present the same problem, the effect on the agricultural market from influences outside agricultural use. First, the policy to allow for the recognition of agricultural influences only in establishing assessed valuation is commonly referred to as "Greenbelt." However, the concept of Greenbelt is restricted by statutory structure, and specifically requires that no land which has a market value reflecting uses other than agricultural use shall be valued as agricultural land unless Greenbelt has been implemented. For example if in a county or an area of a county the market value of agricultural land is substantially higher than other agricultural land in another area of the county, and the reason for the increase in the market value is because of its potential recreational uses, then the recreational influence cannot be ignored unless the county has implemented Greenbelt. Therefore, the value in the influenced area will be higher than in the uninfluenced area.

CONCLUSION

As stated at the beginning, this report is very general and addresses those problems that are fairly universal within the assessment process. It is the opinion of the Division and the Administrator that the Plan of Statewide Equalization will be a very important tool for all officials in the assessment of real property. It will provide guidance and direction in areas that need attention. If the areas within the Plan are addressed by county assessors and the Division, the quality of the assessment of real property in Nebraska will improve.